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EVALUATING THE ROLE OF RELATIONSHIP TERMINATION COST IN MEASURING RELATIONSHIP QUALITY IN RETAIL INDUSTRY (A RELATIONSHIP MARKETING APPROACH)

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ABSTRACT

In this article the author has identified the importance of termination cost in measuring retailer-supplier relationship quality from the retail perspective. The author conducted a comprehensive literature review and highlighted the necessities of considering termination cost in assessing relationship quality in the retail domain. This study is basically a review of the existing literature in relationship marketing. As termination cost has not been considered as a determining factor in influencing relationship quality, the author attempted to identify its potential to influence relationship quality in the retail domain. Previous literature indicates that it is reasonable to expect that termination cost plays a significant role in enhancing the relationship quality in the B2B setting. The study is suggestive of the importance of testing the role of termination cost. The author recommends that future researchers should explore its potential to influence the quality of relationship in the retail industry through quantitative research. Termination cost provides retailers with an effective measure to influence the quality of their relationships with their existing suppliers.

Key words: Relationship marketing, relationship quality, termination cost, retail industry.

Introduction

With the ever growing dominance of super centres and specialty shops, retail industry has become a part of every modern day to day activities of urban population. Athanasoupoulou (2008) stated that it is five times more expensive to get a new customer, than to keep the current one, while Reichheld and Sasser (1990) mentioned that companies can increase 100% of their profits just by retaining 5% more of their customers. From the competitive retail marketing perspective, Fliedner and Vokurka (1997) mentioned that retailers can improve their supply chain agility by forming cooperative strategies with their suppliers, bringing success in competitive markets. Therefore in order to attain competitive advantage, the importance of enhancing the quality of retailer-supplier relationship plays a crucial role.

In managing customer retention and satisfaction, buyers need to develop their ability to assess and control their relationships with their suppliers (Palmer, 2002). Market place trends such as globalization, enhanced competition, ever increase in demands by the customers, technological advancements, and similarity in products and service offerings emphasized on relationship marketing in contrary to the traditional marketing mix approach (Gummesson, 2000; Christopher, 1996; Gruen, 1997; Paun, 1997).

Background

There has been remarkable growth in retailing activities and buyer seller relationships over the years. Due to the expansion of retailing from the 1990s, retail has turned into a global phenomenon (Dawson & Mukoyama, 1994; Goldman, 2001; Moore & Fernie, 2004). From the industrial perspective exponential growth of retail industry has been recorded by *Fortune 500* and *Templeton Global Performance Index*

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(Gestrin, 2000). Despite of the potential growth, the retail industry is not without challenges. Etgar and Moore (2007) clearly identified that expansion of retailers has been accompanied by numerous retail failures. Hudgeon (2006) postulated that most of these enterprises failed to manage their relationship with their suppliers and maintain these relationships healthy. Researchers like Palmer and Quinn (2007) mentioned about the growing evidence of retailers failures. While Burt and Sparks (2004) revealed hundreds of cases of divestments due to business failures by retailers.

Morgan and Hunt (1994) mentioned that termination cost resulted from the perceived lack of comparable potential alternative partners, relationship dissolution expenses, and/or substantial switching costs. These expected termination costs portray an ongoing relationship as important, ultimately strengthening the quality of the relationship. With the term "expected" it is perceived that businesses relationships within the B2B context have the characteristics of uncertainty and risk. Under these circumstances, as the termination costs that are actually very high, a business partner might remain unaware of this truth and not consider enhancing the quality of his relationship with his trading partner. As opposed to that he may face a very low total costs and unfoundedly might fear being terminated and more involved with the relationship, in the long run strengthening the quality of the relationship. Under these circumstances Heide and John (1988) and Jackson (1985) assumed that a terminated party will seek an alternative relationship leading to over dependence. Such costs are exacerbated by idiosyncratic investments, that is, investments that are difficult to switch to another relationship (Heide & John 1988). Based upon the discussion above it can be concluded that the expectation of total terminations costs enhances relationship quality.

Relationship Marketing (RM) and Relationship Quality (RQ)

There has been a major shift in the conception of marketing fundamentals. As the relationship marketing concept has developed there has been a movement away from the traditional adversarial transaction cost analysis approach to buyer supplier relationships, based upon cooperation (Wilson, 1995). The interaction and network approach of industrial marketing and modern services marketing approaches, especially by the Nordic schools, clearly views marketing as an interactive process in a societal context where relationship building and management is a vital cornerstone. The concept of relationship marketing was first introduced by Berry (1983). He described the concept from the services marketing perspective. The major goals of RM in creating mutual benefits and values by reaching objectives for both the buyers and the sellers were agreed upon by other researchers.

Te concept of relationship quality has arisen from theory and research in the field of relationship marketing (Crosby et al., 1990; Dwyer et al., 1987), in which the ultimate goal is to strengthen already strong relationships and to convert indifferent customers into loyal ones (Berry & Parasuraman, 1991). Gummesson (1987) was the pioneer who introduced the concept of relationship quality to the academicians by defining the quality of interactions between the company and its consumers. Gronroos (2000) defined relationship quality as the dynamics of long term quality formation in ongoing customer relationships. He also suggested that from the customers' point of view relationship quality is the continuously developing quality perceptions over time.

The role of termination cost in measuring relationship quality in retail industry

Bennet (2010) defined cost as the total money, time and resources associated with a purchase or activity. Parsons (1997) defined relationship termination cost as the cost of ending the relationship with an exchange partner. The amount of investments in the relationship influences the termination costs. For the first time Morgan and Hunt (1994) mentioned that termination cost resulted from the perceived lack of comparable potential alternative partners, relationship dissolution expenses, and/or substantial switching costs. These expected termination costs portray an ongoing relationship as important, ultimately strengthening the quality of the relationship. With the term "expected" it is perceived that businesses relationships within the B2B context have the characteristics of uncertainty and risk. Under these circumstances, as the termination costs that are actually very high, a business partner might remain unaware of this truth and not consider enhancing the quality of his relationship with his trading partner. As opposed to that he may face a very low total costs and unfoundedly might fear being terminated and more involved with the relationship, in the long run strengthening the quality of the relationship. Under these circumstances Heide and John (1988) and Jackson (1985) assumed that a terminated party will seek an alternative relationship leading to over dependence. Such

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costs are exacerbated by idiosyncratic investments, that is, investments that are difficult to switch to another relationship (Heide & John 1988).

Friman et al. (2002) analyzed and posited that in a B2B setting the relationship between the buyer and the seller should be ended as soon as the benefits are no longer expected. They also mentioned that the anticipation of termination cost seems to increase the interest in maintaining the relationships. Zineldin and Jonsson (2000) mentioned that if supplier-dealer relationships are substantial, they are not easy to change quickly and changes are likely to incur significant costs both in disruption and in developing new relationships, while a common assumption in the relationship literature portrays that a terminated party will look for the next available alternative and incur additional costs to procure one. Persons (1997) stated that relationship termination cost referred to the cost of ending the relationship with an exchange partner. He also mentioned that termination costs were influenced by the amount of investments in the relationship while Wilson (1995) emphasized about the importance of termination cost in relationship quality by mentioning the investments in capital improvements, trainings and equipment- could not be recovered from a terminated relationship. Friman et al. (2000) stated that in a business to business relationship one party provides another with resources and support, while in exchange the other party contributes monetary rewards. If the interdependence between buyer and seller is high, the cost of ending the relationship may be high too (Pardo & Salle, 1994). As in a B2B context the more the buyer depends upon his suppliers for products and services, the more his organizational resources are deployed in successfully maintaining the relationship. In the case of termination of this relationship the buyer loses far more than losing this relationship, he loses all his tangible and intangible investments with this supplier over the years. Morgan and Hunt (1994) confirmed that it is certainly possible that no change of business partnership would occur after the relationship dissolves. As an example the situation of a terminated distributor or supplier might be considered. Once the relationship is terminated he may decide (willingly or unwillingly) to discontinue carrying the product lines, even though an alternative relationship is yet to be established. In this situation there nevertheless will be costs incurred from termination.

Morgan and Hunt (1994) first tested this variable as an antecedent to relationship quality and found positive relationship confirming the idea that expected termination cost led to an ongoing relationship. Anderson and Weitz (1989) also found that as the stakes increased in relationship, the relationship is less likely to be terminated. Zineldin and Jonsson ((2000) proved that relationship termination costs led to higher quality of relationships between the Swedish lumber dealers and their suppliers. Ping (1997) also found that increasing termination cost of the distributors ultimately affected their relationship quality with their suppliers.

Based upon the discussion above it can be concluded that the expectation of total terminations costs enhances relationship quality. Previous researchers have considered relationship termination cost as an antecedent to relationship quality in industries like automobile distributors (Morgan & Hunt, 1994), service entrepreneurs (Friman et al., 2002), purchasing managers (Parsons, 1997), and national lumber dealers (Zineldin & Jonsson ,2000) but, to the best of our knowledge, it has never been tested in the retailer-supplier domain before. Furthermore this variable has been tested in several western countries such as USA (Morgan & Hunt, 1994; Ping, 1997) and Sweden, Australia and UK (Friman et al., 2002) and none were conducted in any third world context.

Conclusion

Research results have shown that the greater the emphasis placed by the suppliers on termination cost, the higher will be the level of relationship quality of the retailers. According to the Key Mediating Variable (KMV) model of relationship marketing the more losses that are expected of a relationship termination, the more committed the different parties will be to each other (Friman et al., 2000 and Morgan & Hunt, 1994). Therefore the positive relationship between relationship termination cost and relationship quality exists when the retailer felt it would be too expensive or difficult to end a relationship, ultimately leading to an increase in the importance of that relationship. As Woodside et al., (1992) suggested that relation specific investments make it more difficult to end a relationship. In this case, the retailers may have developed a sense that a great deal of time and money has already been invested and that these investments may not be recovered if the relationship ends as Wilson (1995) suggested. There may also be a high degree of interdependence between the retailers and their suppliers that may eventually lead them to compromise and cooperate before ultimately terminating the relationship. This phenomenon validates the earlier studies by Zineldin and Jonsson (2000). Under these circumstances retailers are more likely to try to make a relationship work or stay in a bad situation longer before ending the relationship if the cost of terminating is high.

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